9

Books of Original Entry – Journal

LEARNING OBJECTIVES

After studying this Chapter, you should be able to understand :

- Names of Books of Original Entry
- Meaning and Format of Journal
- Features of Journal
- Advantages and Limitations of Journal
- Rules of Journalising
- Recording of Entries in Journal

The books in which a transaction is recorded for the first time from a source document are called 'Books of Original Entry'. Journal is one of the basic books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according to the principles of double entry system. When the size of the business is a small one, then it is possible to enter each and every transaction in the Journal. But when the size of the business grows, it becomes no longer possible to record each and every transaction in the Journal. As such, the Journal is sub-divided into a number of **Sub-Journals** known as **special purpose subsidiary books or books of original entry.** Each type of transaction is recorded in a separate subsidiary book. The subsidiary books may be enumerated as under :—

1. Cash Book
2. Purchases Book
3. Sales Book
4. Purchases Return Book
5. Sales Return Book
6. Bills Receivable Book
7. Bills Payable Book
8. Journal Proper

These books are termed as 'books of original entry' because transactions are first of all recorded in these books. A businessman need not maintain all of the above mentioned subsidiary books, but he may maintain any of the above books according to the needs and requirements of his business.

In this chapter, only the 'Journal' has been discussed. Subsidiary books have been discussed in the subsequent chapters.

JOURNAL

Journal is a book of original entry in which the transactions are recorded first of all, as and when they take place.

According to **Professor Carter**, "The Journal as originally used, is a book of prime entry in which transactions are copied in order of date from a memorandum or waste book. The entries as they are copied are classified into debits and credits, so as to facilitate their being correctly posted, afterwards in the ledger."

Thus, the Journal provides a date-wise record of all the transactions with details of the accounts debited and credited, and the amount of each transaction. Prior to recording in Journal, the transactions may also be recorded in a rough book called 'Waste book' or 'Memorandum book'. Maintenance of waste book is not necessary but where the number of every day transactions is so large that it is not possible for a businessman to remember all of them, the use of waste book may prove helpful. Later on with the help of waste book recording is made in Journal.

Features or Characteristics of a Journal

The chief features of Journal may be stated as under :

(*i*) Journal is a book in which the transactions are recorded first of all, as and when they take place. For this reason it is called a book of original entry.

(*ii*) A journal is only a book of primary (original) entry. All the transactions recorded in the journal are subsequently transferred to ledger which is the principal book of accounts.

(*iii*) A journal is a daily accounting record, *i.e.*, each day's transactions are recorded in the journal on the same day.

(*iv*) In journal, transactions are recorded in a chronological order, *i.e.*, in a date-wise order.

(*v*) It maintains the identity of each transaction and provides a complete picture of the same in one entry.

(*vi*) A journal records both debit and credit aspects of a transaction according to the double entry system of book-keeping.

(*vii*) Each entry in the journal is followed by a brief explanation of the transaction which is called 'Narration'.

(*viii*) A single journal entry is capable of recording more than one transaction involving more than two accounts. Such an entry is called compound entry.

Functions of a Journal

(*i*) To keep a chronological (*i.e.*, date-wise) record of all transactions.

(*ii*) To analyse each transaction into debit and credit aspects by using double entry system of book-keeping.

(*iii*) To provide a basis for posting into ledger.

(*iv*) To maintain the identity of each transaction by keeping a complete record of each transaction at one place on a permanent basis.

Advantages of a Journal

Although it is not necessary to maintain a journal and the transactions can be recorded directly in the ledger accounts, a journal, still is used for the following reasons:

(*i*) As transactions in journal are entered as and when they take place, the possibility of omission of a transaction in the books of accounts is minimised.

(*ii*) As transactions in journal are recorded in chronological order, it is very easy to locate a particular transaction when required.

(*iii*) By analysing each transaction into debit and credit aspects, the journal facilitates the posting into ledger.

(*iv*) Each entry in the journal carries narration which gives a brief explanation of the transaction. Hence, postings in the ledger can be made without explanation.

(*v*) Journal facilitates cross checking of ledger accounts in case a trial balance does not agree.

(*vi*) Since entire transaction is recorded at one place in the journal, the identity of each transaction is maintained on a permanent basis.

(*vii*) Once the transaction is recorded in journal, posting in the ledger can be made as and when convenient.

Limitations of Journal :

(*i*) When the number of transactions is large, it is not possible to record all the transactions in Journal. It will become bulky and voluminous. Hence, the usual practice is to have separate journals or books for different classes of transactions such as purchase book, sales book etc.

(*ii*) Many transactions are repetitive in nature and if all transactions are recorded in journal it will involve debiting and crediting the same accounts time and again. It will involve repetitive posting labour also.

(*iii*) In order to ascertain cash balance everyday, cash transactions are usually recorded in a separate book called 'Cash book'. Thus cash transactions need not be recorded in journal.

(*iv*) Journal does not provide the required information on prompt basis.

Format of Journal

JOURNAL

Date	*Particulars*	*Ledger Folio*	*Amount Dr.* ₹	*Amount Cr.* ₹
(1)	(2)	(3)	(4)	(5)

The columns have been numbered only to show how the Journal is written up, otherwise the columns are not numbered.

1. **Date :**—In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained.

2. **Particulars :**—Each transaction affects two accounts out of which one account is debited and the other account is credited. The name of the account to be debited is written first and the word 'Dr.' is also written towards the end of the column. In the second line, the name of the account to be credited is written. The credit account starts with the word 'To', a few space away from the margin to make it distinct from the debit account (A practice is now developing to omit the writing of the words 'Dr.' and 'To' from Journal entries).

Narration :— After each entry, a brief explanation of the transaction together with necessary details is given. This explanation is called 'Narration'. The narration

helps to know in future the reason for the entry and also as to why a particular account was debited or credited. It is necessary to write the narration after each entry and should be short, complete and clear.

3. **Ledger Folio or L.F. :—** All entries from the Journal are later posted into the ledger accounts. The page number or folio number of the ledger account where the posting has been made from the Journal is recorded in the L.F. column of the Journal. For example, if we make a posting in Machinery A/c which is prepared at page 40 of the ledger, we shall write 40 in the L.F. column against Machinery A/c in the Journal. There are many advantages of writing the folio numbers :—

I. The L.F. column in journal shows whether an entry has been posted or not. If the page number of the ledger does not appear against an entry, it will indicate that the entry has not been posted to the ledger, so far.

II. Page number written in the L.F. column in the Journal is indicative of the page number of ledger where such posting has been made. It helps in understanding and checking the ledger posting at a glance in future.

III. If the trial balance does not agree, the posting of each and every entry has to be checked. Such checking will not be possible without the help of L.F. column.

4. **Amount Dr. :—** In the fourth column, the amount of the account being debited is written.

5. **Amount Cr. :—** In the fifth column, the amount of the account being credited is written.

Steps in Journalising

(1) Before recording a Journal entry, it is essential to analyse a transaction in order to determine the two accounts which are affected. Then, on the basis of rules of journalising, it must be decided as to which account is to be debited and which account is to be credited.

(2) It is not necessary to use the word 'Account' or A/c after the personal accounts.

(3) After every Journal entry, a line should be drawn in particulars column, so that each entry is separated from the preceding one.

(4) At the end of each page, both the Dr. and Cr. columns are totalled up just in front of each other. These totals must be equal because the amount debited in each entry equals the amount credited. These totals are carried forward to the next page progressively upto the end of accounting period. For this purpose, the words 'carried forward or C/F' are written in particulars column at the end of each page and the words 'Brought Forward or B/F' are written at the start of each page.

Rules of Journalising

On the basis of the rules discussed in the chapter on double entry system the accounts to be debited or credited will be determined. The same rules are again explained here in a simplified manner :—

(1) **Personal Accounts :—** According to the rule of 'Debit the receiver', the personal account of the person to whom we give some money or goods is debited. For example, if we gave ₹20,000 to Gopal, the entry will be :—

Gopal	Dr.	20,000	
To Cash A/c			20,000
(Cash paid to Gopal)			

In the same way, according to the rule of 'Credit the giver', the personal account of the person from whom we receive some money or goods is credited. For example, if we received ₹50,000 from Govind, the entry will be :—

Cash A/c	Dr.	50,000	
To Govind			50,000
(Cash received from Govind)			

(2) **Real Accounts :—** According to the rule of 'Debit what comes in and credit what goes out', the account of the cash or other property which is received by the business firm is debited and in the same way, the account of the Cash or other property which goes out of the business is credited. For example, if Machinery is bought for ₹5,00,000 :—

Machinery A/c	Dr.	5,00,000	
To Cash A/c			5,00,000
(Machinery purchased for cash)			

(3) **Nominal Accounts :—** According to the rule of 'Debit all Expenses', the accounts of all expenses and losses are debited. For example, if ₹20,000 are paid for salary, the entry will be :—

Salary A/c	Dr.	20,000	
To Cash A/c			20,000
(Salary paid)			

Similarly, according to the rule of 'Credit all Incomes', the accounts of all incomes and profits are credited. For example, if ₹5,000 are received for commission. The entry will be :—

Cash A/c	Dr.	5,000	
To Commission A/c			5,000
(Commission received)			

Meaning of Goods

Goods are those things which are purchased for resale. In other words, goods are the commodities in which the business deals. For example, if a cloth merchant purchases cloth, the cloth will be termed as 'purchases'. But if the same cloth merchant purchases some furniture, say chairs and a sofa set for the seating of customers, the furniture so purchased will not be termed as purchases, but will be an asset of his business and in this case 'Furniture A/c' will be debited instead of 'Purchases A/c'. It means that the purchases of asset are not termed as purchases in accounting terminology because these assets are not meant for sale.

Goods Account is classified into five accounts for the purpose of passing the Journal entries :—

(I) **Purchases A/c :—** When goods are purchased, instead of debiting Goods A/c 'Purchase A/c' is debited. Purchase A/c is a nominal account and while passing a

Journal entry 'Purchase A/c' should always be debited because of the rule of "Debit all Expenses and Losses."

(II) **Sales A/c :—** When goods are sold, instead of crediting Goods A/c 'Sales A/c' is credited. Sales A/c is a nominal account and while passing a Journal entry 'Sales A/c' should always be credited because of the rule of "Credit all Incomes and Gains".

(III) **Purchases Return A/c :—** This account is also named as 'Return Outward'. It is a nominal account and should always be credited because purchases *i.e.* expenses are reduced.

(IV) **Sales Return A/c :—** This account is also named as 'Return Inward'. It is a nominal account and should always be debited because incomes *i.e.* sales are reduced.

(V) **Stock A/c**

Important Considerations :

In the transactions relating to the purchase or sale of goods, it has to be decided whether a transaction is for cash or for credit, because the entry is passed accordingly.

Following points should be considered for this :

1. If, in the transaction relating to purchase or sale of goods, the name of purchaser or seller is not given, it is considered as a cash transaction.
   For example, Goods sold for ₹50,000.
2. If, in the transaction relating to purchase or sale of goods, the name of purchaser or seller is given alongwith cash, it is considered as a cash transaction.
   For example, 'Goods sold to Gopal for Cash'.
3. If, in the transaction relating to purchase or sale of goods, the name of purchaser or seller is given and it is not stated whether it is a cash or credit transaction, it is considered to be a credit transaction.
   For example, 'Goods sold to Gopal'.

In Case of Expenses : Even if the name of party receiving or making payment is given, it is still considered as a cash transaction.

For example : Salary paid to Mukesh ₹10,000. The entry will be :

Salary A/c	Dr.	10,000	
To Cash A/c			10,000

ILLUSTRATION 1.

Enter the following transactions in the Journal of Siya Ram & Sons.:—

2020			₹
Jan.	1	Siya Ram & Sons started business with cash	50,000
	2	Purchased goods for cash	20,000
	4	Purchased goods from Subhash	12,000
	5	Purchased Furniture for cash	6,000
	10	Paid cash to Subhash	8,000
	16	Purchased goods from Ravi for cash	7,500
	17	Purchased goods from Ravi	5,000
	20	Bought Machinery for cash	8,000
	27	Paid rent	400

SOLUTION :

JOURNAL OF SIYARAM & SONS

Date	Particulars		L.F.	Amount Dr.	Amount Cr.
				₹	₹
2020 Jan. 1	Cash A/c	Dr.		50,000	
	To Capital A/c				50,000
	(Cash brought into the business by Siya Ram & Sons as capital)				
Jan. 2	Purchases A/c	Dr.		20,000	
	To Cash A/c				20,000
	(Goods purchased for cash)				
Jan. 4	Purchases A/c	Dr.		12,000	
	To Subhash				12,000
	(Goods purchased from Subhash on credit)				
Jan. 5	Furniture A/c	Dr.		6,000	
	To Cash A/c				6,000
	(Furniture purchased for cash)				
Jan. 10	Subhash	Dr.		8,000	
	To Cash A/c				8,000
	(Cash paid to Subhash)				
Jan. 16	Purchases A/c	Dr.		7,500	
	To Cash A/c				7,500
	(Goods purchased for cash)				
Jan. 17	Purchases A/c	Dr.		5,000	
	To Ravi				5,000
	(Goods purchased from Ravi on credit)				
Jan. 20	Machinery A/c	Dr.		8,000	
	To Cash A/c				8,000
	(Machinery purchased for cash)				
Jan. 27	Rent A/c	Dr.		400	
	To Cash A/c				400
	(Rent paid)				
	Total	₹		1,16,900	1,16,900

Explanation of the above mentioned entries

Jan. 1. **Siya Ram & Sons started business with Cash :—** A business unit is always considered to be separate and distinct from the proprietor. All the transactions are recorded in the books of the business from the point of view of the business. Cash coming into the business will be debited according to the rule of real account, *i.e.*, 'debit what comes in'. Proprietor is the giver of cash to the business, therefore, proprietor's capital account will be credited according to the rule of personal account, *i.e.*, 'Credit the giver'.

Jan. 2. **Purchased goods for Cash :—** The two accounts affected in this transaction are 'Purchases A/c' and 'Cash A/c'. Purchases A/c is a nominal account

Discount

It is an allowance given by the seller of goods out of selling price (also called list price or catalogue price) or a deduction for making prompt payment.

Discount is of two types :

(1) Trade Discount, and

(2) Cash Discount

(1) **Trade Discount** :— This discount is allowed by wholesaler or manufacturer to the retailer at a fixed percentage on the listed price of goods. It is allowed when goods are purchased in bulk, *i.e.*, large quantity. This discount is allowed both on credit as well as cash transactions since it is related to the purchases and not to the payment. No separate entry is passed for the Trade discount, as it is deducted from the cash memo or invoice of the goods. For example, if a trader sells goods of the list price of ₹1,00,000 at 20% trade discount for cash, the entry will be :—

Cash A/c	Dr.	80,000	
To Sales A/c			80,000

If the goods sold at trade discount are returned by the customer, the amount of trade discount is again deducted from the list price of the returned goods.

(2) **Cash Discount :—** This discount is allowed to the customers for making prompt or early payment. In other words, cash discount is allowed only if the customer makes the payment within a fixed period. Such discount motivates the customer to make the payment at the earliest. As the discount is allowed at the time of making payment, so the entry for cash discount is recorded alongwith the entry for payment. Discount is a nominal account and as such, it is debited when it is allowed to a customer and credited when it is received.

Distinction between Trade Discount and Cash Discount

Basis of Distinction	Trade Discount	Cash Discount
1. **Meaning**	Trade discount is allowed by wholesaler or manufacturer to the retailers at a fixed percentage on the printed price list.	Cash discount is allowed if the customer makes the payment immediately or within a fixed period.
2. **When allowed?**	It is allowed when goods are purchased in a **specified quantity**.	It is allowed when payment is made **on or before a specified date.**
3. **Object**	Generally, it is allowed to the retailers to enable them to make some profit even if they sell the goods at their catalogue price.	It is allowed to encourage quick or prompt payment.
4. **Recording in the books of accounts**	It is not recorded separately in the books of accounts.	It is recorded separately in the books of accounts.
5. **Deduction from Invoice**	It is deducted from the invoice.	It is not deducted from the invoice.

Sometimes, a customer is allowed both the discounts, *i.e.*, trade discount as well as cash discount. In such a case, first trade discount is to be deducted from the price of the goods and then, cash discount is to be calculated on the balance of the amount.

For example, if a trader sells goods of the list price of ₹20,000 at 10% trade discount and 2% cash discount, the net amount will be calculated as under :

			₹
List Price			20,000
Less :	Trade Discount @ 10%		2,000
			18,000
Less :	Cash Discount @ 2%	$18{,}000 \times \frac{2}{100}$	360
			17,640

It means that ₹17,640 will be paid if the payment is made in cash.

Advantages of Trade Discount :

To the Retailer :

1. It reduces the cost of purchase and thus, increases the margin of profit.
2. It enables the retailer to make some profit even if he sells the goods at their catalogue price.

To the Wholesaler or Manufacturer :

1. It increases sales by encouraging the retailers to make bulk purchases by offering higher rate of discount for orders of large quantities.
2. A change in the rate of trade discount may prove to be an effective weapon to face competition.
3. Different prices can be charged from regular customers and occasional customers simply by altering the rate of trade discount.
4. Change in rate of trade discount is an easy method to make changes in prices without reprinting of catalogues.

Advantages of Cash Discount :

To the Seller :

1. Seller receives the amount within a stipulated time because cash discount is allowed only if the customer makes the payment within the specified period.
2. Cash received in time improves the cash inflow of the business and the cash may be put to better use.
3. The possibility of bad debts is minimised.
4. Prompt payment reduces the clerical work of maintaining of debtors accounts and of sending frequent reminders to debtors.

To the Buyer :

1. The earlier the buyer pays the higher he earns in cash discount.
2. A buyer who earns higher cash discount can sell the goods to his customers at lower rates.
3. Early payment enhances the reputation or goodwill of the buyer.

Rebate

It is also a reduction in the value of goods sold allowed by the seller. It is allowed for the reason other than for which trade discount and cash discount are allowed. For example, rebate is usually allowed for inferior quality of goods sold or goods being not as per specification. As such, it is different from trade discount and cash discount. Trade discount is usually allowed by the seller on higher volume of goods purchased by the purchaser and cash discount is allowed on prompt payment.

Accounting Treatment :

Usually, no separate entry is passed for rebate because it reduces the sales value of goods just like trade discount.

However, if rebate is allowed after the entry for sale of goods has already been passed then a separate entry will be required in the books of seller as well as purchaser.

Seller will pass following entry for rebate allowed :

Rebate Allowed A/c	Dr.	
To Purchaser		

Purchaser will pass following entry for rebate received :

Seller	Dr.	
To Rebate Received A/c		

Compound Journal Entries

Sometimes, two or more transactions relating to one particular account take place on the same date. In such cases, instead of passing separate entries for all such transactions, only one entry is passed. Such a Journal entry is termed as Compound Journal Entry. For example, on 31st March ₹50,000 are paid for salaries and ₹20,000 are paid for rent, the entry will be :—

31st March	Salary A/c	Dr.	50,000	
	Rent A/c	Dr.	20,000	
	To Cash A/c			70,000
	(Expenses paid)			

Such entries can be passed in either of the following three ways :—

1. By debiting one account and crediting two or more accounts.
2. By crediting one account and debiting two or more accounts.
3. By debiting two or more accounts and crediting two or more accounts, such as the 'Opening Entry'.

ILLUSTRATION 4.

Record the following transactions in the Journal of Naresh & Co. :

2018		₹
June 1	Paid cash to Mahesh	9,600
	and discount received from him	400
June 4	Received cash from Arun	4,900
	and discount allowed to him	100
June 10	Goods sold to Harish	30,000
June 12	Harish returned goods	2,000
June 14	Received cash from Harish ₹27,500 in full settlement of his account.	
June 20	Sold goods to Gopal of the list price of ₹60,000 at 10% trade discount.	
June 23	Purchased goods from Ravi of the list price of ₹20,000 at 15% trade discount.	

SOLUTION :

JOURNAL OF NARESH & CO.

Date	Particulars		L.F.	Amount Dr.	Amount Cr.
				₹	₹
2018 June 1	Mahesh	Dr.		10,000	
	To Cash A/c				9,600
	To Discount Received A/c				400
	(Cash paid to Mahesh and discount received)				
June 4	Cash A/c	Dr.		4,900	
	Discount Allowed A/c	Dr.		100	
	To Arun				5,000
	(Cash received from Arun and discount allowed)				
June 10	Harish	Dr.		30,000	
	To Sales A/c				30,000
	(Good sold to Harish)				
June 12	Sales Return A/c	Dr.		2,000	
	To Harish				2,000
	(Goods returned by Harish)				
June 14	Cash A/c	Dr.		27,500	
	Discount Allowed A/c	Dr.		500	
	To Harish				28,000
	(Cash received from Harish and discount allowed to him)				
June 20	Gopal	Dr.		54,000	
	To Sales A/c				54,000
	(Goods of the list price of ₹60,000 sold at 10% trade discount)				
June 23	Purchases A/c	Dr.		17,000	
	To Ravi				17,000
	(Goods of the list price of ₹20,000 purchased at 15% trade discount)				
	Total	₹		1,46,000	1,46,000

ILLUSTRATION 5.

Give Journal entries for the following transactions in the books of Partap Rai & Sons. :—

2019		₹
April 2	Cash purchases	48,000
April 3	Sold goods to Vasudev	10,000
April 6	Returned defective goods by Vasudev	1,000
April 8	Received cash from Vasudev	8,800
	and Discount allowed	200
April 9	Chanderkant sold goods to us	20,000
April 10	Pritam purchased goods from us	12,000
April 10	Paid insurance premium by cheque	500
	...of Sh. Partap Rai by cheque	2,000

	B/F			96,000	96,000
March 20	Fixed Deposit A/c Dr. To Bank A/c (Amount transferred from current account to fixed deposit account)			20,000	20,000
	Total ₹			1,16,000	1,16,000

Opening Entry

Every firm starts its new books in the beginning of each year. Since the closing balances of last year have to be carried forward to the next year, the first entry in each year's Journal will be to record the previous year's closing balances of all the assets and liabilities. As it is the first entry, it is called the opening entry. In this entry the accounts of all assets are debited because assets always show debit balances and the accounts of liabilities and capital are credited because they always show credit balances. If the balance of the capital account is not given in the question, it will be found out by deducting the total of liabilities from the total of assets. On the contrary, if the total of liabilities exceeds the total of assets, the difference will be treated as the amount of Goodwill and the same will be debited in the opening entry.

For example, the following balances appeared in the books of Gopal on 1st April, 2020 :

Assets : Cash ₹8,000; Bank Balance ₹20,000; Stock ₹54,000; Debtors ₹47,000 (Ashok ₹12,000, Pawan ₹15,000, Vivek ₹20,000); Machinery ₹60,000.

Liabilities : Creditors ₹20,000 (Chaman Lal ₹7,000; Om Pal ₹13,000), Capital ₹2,00,000.

The Opening Entry will be :

Date	*Particulars*		*L. F.*	*Amount Dr.*	*Amount Cr.*
				₹	₹
2020 April 1	Cash A/c	Dr.		8,000	
	Bank A/c	Dr.		20,000	
	Stock A/c	Dr.		54,000	
	Ashok	Dr.		12,000	
	Pawan	Dr.		15,000	
	Vivek	Dr.		20,000	
	Machinery A/c	Dr.		60,000	
	Goodwill A/c (Balancing Figure) (*i.e.*, Total of Liabilities ₹2,20,000 *Less* : Total of Assets ₹1,89,000)	Dr.		31,000	
	To Chaman Lal				7,000
	To Om Pal				13,000
	To Capital A/c				2,00,000
	(Assets and liabilities brought forward)				

Bad Debts

When the goods are sold to a customer on credit, and if the amount becomes irrecoverable due to his insolvency or for some other reason, the amount not recovered is called bad debts. For recording it, bad debts account is debited and the customer's account is credited.

For example : Ravi who owed us ₹10,000 is declared insolvent and 30 Paise in a rupee is received from his estate. The journal entry will be :

Date	Particulars		L. F.	Amount Dr.	Amount Cr.
				₹	₹
	Cash A/c	Dr.		3,000	
	Bad Debts A/c	Dr.		7,000	
	To Ravi				10,000
	(30 p. in the rupee received from Ravi on his insolvency)				

ILLUSTRATION 14.

You are required to journalise the following transactions :

Balances in the books of Rahul, a computer dealer on 1st April, 2017 :

Cash ₹500; Bank Overdraft ₹1,000; Debtors ₹7,000; Building ₹6,500; Computers ₹3,500.

On the same day, he sold a computer, the book value of which was ₹2,000 for ₹1,950. *(I.S.C. Specimen Question Paper, 2019)*

SOLUTION : JOURNAL OF RAHUL

Date	Particulars		L. F.	Amount Dr.	Amount Cr.
2017				₹	₹
April 1	Cash A/c	Dr.		500	
	Debtors A/c	Dr.		7,000	
	Building A/c	Dr.		6,500	
	Stock (Computers) A/c	Dr.		3,500	
	To Bank Overdraft A/c				1,000
	To Capital A/c (Balancing Figure)				16,500
	(Assets and liabilities brought forward)				
"	Cash A/c	Dr.		1,950	
	To Sales A/c				1,950
	(Goods sold for cash)				

Some Special Entries

(1) **Bad Debts Recovered :—** Sometimes, it so happens that the bad debts previously written off are subsequently recovered. In such cases, the following entry is passed :—

Cash A/c Dr.

To Bad Debts Recovered A/c

Care should be taken that the personal account of the debtor should not be credited because the Debtor's account must have been credited while passing the entry for bad debts.

(2) **Outstanding Expenses :—** It is quite common for a business enterprise to be left with some expenses which are yet to be paid at the end of the accounting year due to one reason or the other. Such expenses are termed as outstanding expenses. These are the expenses which should have been paid during the current year but which have not been paid. For example, if an employee is paid salary @ ₹1,000 per month, and if during the year only 11 months' salary amounting to ₹11,000 has been paid to him, ₹1,000 for one month will be the outstanding salary. The entry will be :—

Salary A/c	Dr.	1,000	
To Outstanding Salary A/c			1,000

Outstanding Salary Account is a liability. It has been credited because it is a representative personal account, representing the employees to whom salaries are to be paid.

(3) **Prepaid Expenses :—** There are certain expenses which are related to the next year but have been paid during the current year in advance. These are called prepaid expenses. The benefit of such expenses will be received during the next accounting year. For example, insurance premium amounting to ₹1,200 is paid on 1st July, 2019 for one year. Entry on 1st July, 2019 will be made as under :—

Insurance Premium A/c	Dr.	1,200	
To Cash A/c			1,200

When the books will be closed on 31st March, 2020, insurance premium for 3 months, *i.e.,* from 1st April, 2020 to 30th June 2020 will be treated as prepaid insurance and the following entry will be passed for it on 31st March, 2020 :—

Prepaid Insurance A/c	Dr.	300	
To Insurance Premium A/c			300

Prepaid Insurance Account is an asset. It has been debited because it is a representative personal account and represents those persons to whom payment has been made in advance.

(4) **Depreciation :—** It is the permanent and continuing decrease in the value of an asset on account of wear and tear and passage of time. It is a business expense though it is not paid in cash. Depreciation is a nominal account since it represents a loss and hence is debited. Asset account will be credited as its value is reduced due to depreciation. Journal Entry will be :

Depreciation A/c	Dr.		
To Asset A/c			

(5) **Interest on Capital :—** In order to ascertain the true efficiency of the business it is a normal practice to charge business with interest on proprietor's capital. Profits left after charging the amount of such interest are the real profits earned by the business. Such interest is a loss from the point of view of the business and therefore according to the rule of nominal accounts Interest A/c is debited in the Journal entry. The amount of such interest is a gain from the point of view of the proprietor. His

capital is increased by the amount of interest and therefore the capital account is credited in the Journal entry.

(6) **Interest on Drawings** :— If the firm allows interest on capital it should also charge interest on drawings made by the proprietor. Such an interest is an expense for the proprietor and a gain to the business. Hence an entry is made by debiting the drawings account and crediting interest account.

ILLUSTRATION 15.

Pass Journal Entries for the following :—

(1) Received ₹20,000 from Subhash, which were written off as bad-debts in the previous year.

(2) Salaries due to clerks ₹50,000.

(3) Out of the rent paid this year, ₹10,000 is related to next year.

(4) Provide 10% depreciation on furniture costing ₹50,000.

(5) Provide 12% interest on capital amounting to ₹10,00,000.

(6) Charge interest on drawings ₹8,000.

SOLUTION :

JOURNAL

Date	*Particulars*		*L. F.*	*Amount Dr.*	*Amount Cr.*
				₹	₹
(1)	Cash A/c	Dr.		20,000	
	To Bad Debts Recovered A/c				20,000
	(Cash received from Subhash, previously written off as bad-debts)				
(2)	Salaries A/c	Dr.		50,000	
	To Outstanding Salaries A/c				50,000
	(Salaries due to clerks)				
(3)	Prepaid Rent A/c	Dr.		10,000	
	To Rent A/c				10,000
	(Rent paid in advance)				
(4)	Depreciation A/c	Dr.		5,000	
	To Furniture A/c				5,000
	(Depreciation provided on furniture)				
(5)	Interest on Capital A/c	Dr.		1,20,000	
	To Capital A/c				1,20,000
	(Interest provided on capital)				
(6)	Drawings A/c	Dr.		8,000	
	To Interest on Drawings A/c				8,000
	(Interest charged on drawings)				
	Total	₹		2,13,000	2,13,000

Expenditure on the installation of Machinery and on the erection of Building-:— Machinery and Building are the assets of the business. As such, any

expenditure incurred on the carriage and installation of machinery such as freight, transit expenses, installation expenses, wages paid for the installation etc. is treated as capital expenditure and is debited to the Machinery Account. Similarly, any expenditure incurred for the construction of a Building such as the purchase of materials and the payment of wages are also treated as capital expenditure and as such debited to the Building Account. However, repair charges incurred on an asset which is already appearing in the books are debited to repairs account.

ILLUSTRATION 16.

Journalise the following items in the books of Radha Kamal & Sons. giving suitable narrations :—

(*i*) Bought goods from Nilesh for Cash ₹50,000. Also paid ₹1,000 for their carriage.

(*ii*) Paid to Sita ₹9,650 in full payment of her dues of ₹10,000.

(*iii*) Purchased a machinery by giving a cheque of ₹3,00,000 and paid ₹25,000 in Cash as wages on its installation.

(*iv*) Bricks for ₹15,00,000 and timber for ₹10,00,000 purchased for the construction of building. The payment was made by cheque.

(*v*) Purchased an old machinery for ₹1,00,000 and spent ₹5,000 on its carriage and ₹20,000 on its immediate repairs. Entire payment is made by Cheque. *(KVS 2016)*

(*vi*) Paid ₹2,500 for repairing the office furniture.

SOLUTION : JOURNAL OF RADHA KAMAL & SONS.

Date	*Particulars*		*L. F.*	*Amount Dr.*	*Amount Cr.*
S. No.				₹	₹
(*i*)	Purchases A/c	Dr.		50,000	
	Carriage Inwards A/c	Dr.		1,000	
	To Cash A/c				51,000
	(Goods purchased for cash)				
(*ii*)	Sita	Dr.		10,000	
	To Cash A/c				9,650
	To Discount Received A/c				350
	(Cash paid to Sita and discount received)				
(*iii*)	Machinery A/c	Dr.		3,25,000	
	To Bank A/c				3,00,000
	To Cash A/c				25,000
	(Machinery purchased for ₹3,00,000 and wages for ₹25,000 paid for its installation.)				
(*iv*)	Building A/c	Dr.		25,00,000	
	To Bank A/c				25,00,000
	(Bricks for ₹15,00,000 and timber for ₹10,00,000 purchased for the construction of building)				
		C/F		28,86,000	28,86,000

(ii)	Cash A/c To Dushyant (Cash received from Dushyant on account)	Dr.	38,000	38,000
(iii)	Cash A/c Bad-debts A/c To Biroo (Cash received and Bad-debts written off)	Dr. Dr.	9,750 5,250	15,000
(iv)	Cash A/c Discount Allowed A/c To Sales A/c (Goods of the list price of ₹20,000 sold at 10% trade discount and 5% cash discount)	Dr. Dr.	17,100 900	18,000
(v)	Shakuntla To Sales A/c (Goods sold to Shakuntla at 10% above cost and allowed 5% trade discount)	Dr.	6,270[1]	6,270
	Total	₹	1,17,270	1,17,270

		₹
Note 1 :—	Cost of Goods	6,000
	Add : 10% of 6,000	600
		6,600
	Less : $6{,}600 \times \frac{5}{100}$	330
		6,270

Special transactions relating to goods

(1) **Drawings in Goods :—** Sometimes the proprietor withdraws goods from the business for his personal use. The entry for recording this transaction will be :—

Drawings A/c Dr.
To Purchases A/c
(Goods taken for personal use)

Purchase account is credited because as a result of the transaction the net amount of purchases of the business is reduced. Sales account should not be credited since the sale has not taken place. Also when the goods go out of business at cost price, purchase account should be credited and not Sales account.

(2) **Goods given away as charity :**— Charity is an expense of the business, as such charity account will be debited. Goods are going out of the business at cost price, hence purchases are reduced to that extent and as such, purchases account will be credited. The entry will be :—

Charity A/c Dr.
    To Purchases A/c
(Goods given away as charity)

(3) **Goods distributed as free sample :**— Sometimes the goods are distributed as free samples to the potential buyers in order to promote sales. As such, free samples can legitimately be treated as expenses on advertisement. The entry will be :—

Advertisement Expenses A/c Dr.
    To Purchases A/c
(Goods distributed as free samples)

(4) **Loss of goods by theft or loss by fire :** The entry will be :—

Loss by Theft A/c Dr.
Loss by Fire A/c Dr.
    To Purchases A/c
(Goods lost by theft and goods destroyed by fire)

In Case goods were insured :

Insurance Company or Insurance Claim A/c Dr.
    To Loss by Theft or Loss by Fire
(Insurance Claim lodged with the Insurance Co.)

If the full amount of claim is received from the Insurance Company :

Bank A/c Dr.
    To Insurance Company
(Insurance claim received)

If the Insurance Company does not admit full claim :

Bank A/c Dr. (Amount received for claim admitted)
Profit and Loss A/c Dr. (Claim not admitted)
    To Insurance Company A/c
(Insurance claim partially admitted and received)

ILLUSTRATION 20.

Pass Journal Entries for the following :—

(1) Proprietor withdrew for his personal use cash ₹20,000 and goods worth ₹10,000.

(2) Goods for ₹50,000 were given away as charity. (Sale price ₹60,000)

(3) Goods worth ₹25,000 were distributed as free samples.

(4) Goods worth ₹50,000 and cash ₹20,000 were stolen by an employee.

(5) Goods worth ₹1,00,000 were destroyed by fire. Insurance Company admitted and paid claim for 60% amount.

SOLUTION :

Date	Particulars		L.F.	Amount Dr.	Amount Cr.
S. No.				₹	₹
(1)	Drawings A/c	Dr.		30,000	
	To Cash A/c				20,000
	To Purchases A/c				10,000
	(Cash and goods taken away for personal use)				
(2)	Charity A/c	Dr.		50,000	
	To Purchases A/c				50,000
	(Goods given away as charity)				
(3)	Advertisement Expenses A/c	Dr.		25,000	
	To Purchases A/c				25,000
	(Goods distributed as free samples)				
(4)	Loss by theft A/c	Dr.		70,000	
	To Purchases A/c				50,000
	To Cash A/c				20,000
	(Goods and Cash stolen by an employee)				
(5)	Loss by Fire A/c	Dr.		1,00,000	
	To Purchases A/c				1,00,000
	(Goods destroyed by fire)				
	Insurance Company	Dr.		1,00,000	
	To Loss by Fire A/c				1,00,000
	(Insurance claim lodged with the Insurance Company)				
	Bank A/c	Dr.		60,000	
	Profit and Loss A/c	Dr.		40,000	
	To Insurance Company A/c				1,00,000
	(Insurance claim of ₹1,00,000, accepted and received at ₹60,000)				
	Total	₹		4,75,000	4,75,000

ILLUSTRATION 21.

Journalise the following transactions in the books of Harpreet Bros :

(*a*) ₹10,000 due from Rohit are now bad debts.

(*b*) Goods worth ₹20,000 were used by the proprietor.

(*c*) Charge depreciation @10% p.a. for two months on machine costing ₹3,00,000.

(*d*) Provide interest on capital of ₹15,00,000 at 6% p.a. for 9 months.

(*e*) Rahul who owed us ₹20,000 becomes insolvent and a final dividend of 60 paise in a rupee is received from his estate by cheque.

(*f*) Goods costing ₹80,000 sold to Mohan for ₹1,00,000.

(NCERT Numerical Q. 14)